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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

TECNIMED SRL, Plaintiff, v. KIDZ-MED, INC. AND AMERICAN SCIENTIFIC RESOURCES, INC., Defendants.	**Civil Action No. 10 CV 7277 (PGG)**

MEMORANDUM IN SUPPORT OF PLAINTIFF'S MOTION FOR ORDER TO SHOW CAUSE FOR PRELIMINARY INJUNCTION

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Plaintiff Tecnimed srl ("Tecnimed") respectfully submits this memorandum of law in support of its motion for a preliminary injunction against Defendants Kidz-Med, Inc. ("Kidz-Med") and American Scientific Resources, Inc. ("ASR").

PRELIMINARY STATEMENT

This request for a preliminary injunction does not present a close question. Plaintiff is the manufacturer of the Thermofocus 5-in-1 Non-Contact Thermometer (the "Product" or "Thermofocus 5-in-1"). Defendants are the former exclusive distributors of the Product. Defendants are now selling a non-contact thermometer in direct competition with the Thermofocus 5-in-1, notwithstanding their express agreement not to act as a "manufacturer, commission merchant, intermediary, reseller, distributor, agent, or in any other way, for the benefit of himself or third parties who manufacture or market products that are in competition with" Tecnimed's thermometers.

Not only directly competing, Defendants are deliberately "blurring" the Thermofocus 5-in-1 thermometer with their own. We have come to learn that, as early as December 2009, Defendants began to market the Thermofocus 5-in-1 under the trade name "Kidz-Med 5-in-1 Non-Contact Thermometer," with no reference to Tecnimed or the Thermofocus brand. This is the exact same name that Defendants are now using to promote their new thermometer, which they introduced at a major trade show in June 2010, and started to sell only a few days ago.

A press release from Defendants vividly illustrates the type of blurring that is occurring:

> We are excited to see that the media A-list are featuring our non-contact, hygienic thermometer [referring to the Thermofocus 5-in-1] as a must-have during the flu season. *Our new non-contact thermometer will be launching this year, and we hope for similar attention to be drawn to it too.*

In advertising their new product, Defendants have falsely claimed that a physician endorsement given for the Thermofocus 5-in-1 was, instead, given with respect to their own product. Worse, Defendants are now using product descriptions, logos and trade dress to market their new product, which are *virtually identical* to those used to market and sell the Thermofocus 5-in-1. To drive traffic to their website, Defendants have even gone so far as to incorporate the words "Thermofocus" and "01500" into their site's metadata; a Google search of "Thermofocus" now brings one to the Kidz-Med website, even though the Thermofocus 5-in-1 is not sold there.

This is not a right. Defendants have set-out to cause confusion in the market place -- and are succeeding. Although the Product is only days on the market, one reviewer of the new Kidz-Med product writes: "I bought the original 5and1 [referring to Tecnimed's product] when we recently had a baby last year. When they [Kidz-Med] came out with there [*sic*] new one, I had to try it." Correspondingly, Tecnimed's long-established thermometer is now being sold on various websites under the Kidz-Med trade name without any mention of Thermofocus or Tecnimed.

Defendants must be stopped from doing what they are doing, before Tecnimed suffers further harm to its good will and reputation. Damages alone will not work here. The merits are clear, as are the equities. A preliminary injunction should thus issue, stopping defendants from competing through at least March 11, 2011. and from using marks and trade dress intended to cause product confusion.

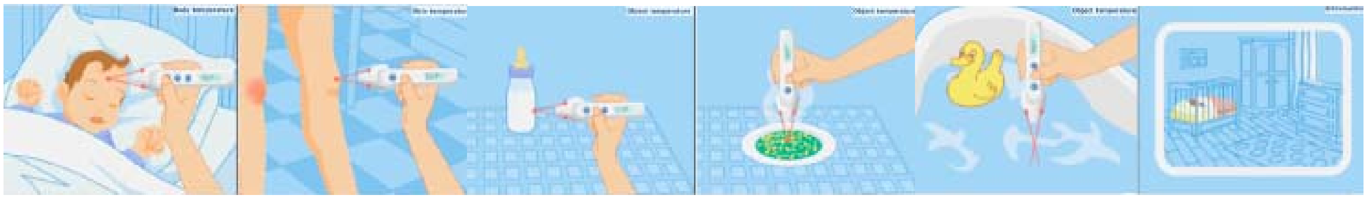
STATEMENT OF FACTS

The Distribution Agreement and Notes

Tecnimed is the manufacturer of the Thermofocus 5-in-1. Bellifemine Decl., ¶ 3.[1] The Product uses two light beams to collect and evaluate infrared emissions from individuals and objects to measure their temperature without physical contact. *Id.* at 4. It has long been marketed and sold by Tecnimed to parents as a safe and hygienic thermometer ideal for taking the temperature not only of a child, but also of food, formula or bath, as well as the ambient

[1] All exhibits are annexed to the declaration of Francesco Bellifemine submitted herewith.

temperature in a nursery or room. The following images, taken from Tecnimed's promotional materials, pictorially illustrate these uses (Ex. 12):



On August 27, 2007, Tecnimed and Kidz-Med entered into an International Distribution Agreement, pursuant to which Tecnimed granted Kidz-Med the exclusive right to sell the Product in the United States through retail distribution channels. On March 31, 2008, Tecnimed and Kidz-Med entered into a new International Distribution Agreement which superseded the earlier agreement. Ex. 1. On the same day, Tecnimed and ASR also executed an Addendum to the International Distribution Agreement (the International Distribution Agreement and Addendum, as supplemented and amended from time to time, the "Distribution Agreement"). *Id.*

Pursuant to the Distribution Agreement, Defendants had to promote the Product "in accordance to the general directions given by Tecnimed" and had "to protect Tecnimed's interests with the diligence of a responsible businessman." *Id.* at § 5.1. The Distribution Agreement required all advertising to be in accordance with instructions given by Tecnimed "in order to warrant that it conforms to Tecnimed's image and marketing policies." *Id.* Tecnimed agreed to provide, and did provide, Defendants with "digital designs and text illustrations to assist Distributor with respect to such advertising." *Id.*; Bellifemine Decl., ¶ 9.

Pursuant to the Distribution agreement, the parties agreed to use the following packaging for the Product (Ex. 2):

NEW!
ThermoFocus
"No-Touch" Thermometer
INTRODUCING
NeverWake™ Technology
No need to touch, startle, upset or wake your child.
1 SECOND INFRARED READING
• Pediatrician recommended
• Clinically tested
• Safe, hygienic, and easy to use
• No expensive probe covers needed
Mem
5-in-1 Measure Any Temperature
Child
Food
Formula
Bath
Nursery
KIDZ+MED
4 AAA Batteries Included
DVD 1 Multi-Language Instructional DVD Enclosed

The distinctive blue and purple trade dress, as well Kidz-Med's website and other promotional materials, showed a mother using the Product without disturbing a sleeping infant. The following trade names, marks and symbols were also used in the packaging and promotional materials for the Product: "NeverWake Technology"; "No need to touch, startle, upset or wake your child"; "5-in-1 Measures Any Temperature" followed by "Child, Food, Formula, Bath and Nursery"; artwork showing the five uses of the Product; and "Safe, hygienic and easy to use."

The "5-in-1" mark had long been used by Tecnimed to promote its Product, as have the five pictures relating to the uses of the thermometer. Ex. 3; Bellifemine Decl., ¶ 14. The trade dress itself and the mark "NeverWake Technology" were developed by Defendants to promote the Thermofocus 5-in-1 in the U.S. market. *Id.*

To protect Tecnimed against Defendants using the Thermofocus 5-in-1's marks for purposes other than promoting the Product, the Distribution Agreement requires Defendants:

- to "make use of Tecnimed's trademarks, trade names or any other symbols, for the only purpose of identifying and advertising the Products . . . in Tecnimed's sole interest" (Ex. 1 at § 8.1);

- "neither to register nor have registered, any domain, trademarks, trade names or symbols of Tecnimed or of the Products (nor any domain, trademarks, trade names or symbols that may be confused with Tecnimed's [marks])" and "not to include the above trademarks, trade names or symbols in his own trade or company name" (*Id.* at § 8.2);

- after expiration of the relationship, "not to make any reference to the previous relationship with Tecnimed, in order to avoid confusion on the side of the customers." (*Id.* at § 8.3).

The Distribution Agreement also contains a non-competition provision:

> Distributor shall not distribute, manufacture or represent any products which are in competition with the Products, for the entire term of this contract and for two years after its effective termination. In particular, he shall not engage, within the Territory or elsewhere, directly or indirectly, acting as manufacturer, commission merchant, intermediary, reseller, distributor agent, or in any other way, for the benefit of himself or third parties who manufacture or market products that are in competition with the Products.

Id. at § 3.1.

Pursuant to the Distribution Agreement, Tecnimed shipped approximately 56,800 units of the Product to Defendants. Bellifemine Decl., ¶ 17. Defendants have in their possession (or in the possession of warehouses or retailers) approximately 17,000 units of unsold Product. *Id.* In connection with the purchase of the Product, ASR signed two promissory notes in favor of Tecnimed in the principal amount of $350,000 dated October 30, 2007, and $258,000 dated April 1, 2008 (collectively, the "Notes"). Ex. 4. Tecnimed holds a perfected security interest in the Product to secure this indebtedness. ASR is in default under the Notes with an outstanding debt of $298,669.11. Bellifemine Decl., ¶ 19.

The Settlement Agreement

On March 6, 2009, the parties entered into a Settlement Agreement (the "Settlement Agreement") to resolve certain claims had been filed by the parties arising out of, *inter alia*, Defendants failure to pay for the Products in full and their inability to meet the volume targets in the Distribution Agreement. Ex. 5. The Settlement Agreement terminated the Distribution Agreement "except as otherwise set forth in this Settlement Agreement." *Id.* at ¶ 2.

At the time of the settlement, Defendants still had tens of thousands of unsold units of the Product. Accordingly, the parties provided in the Settlement Agreement that Tecnimed was not releasing "all obligations of ASR and Kidz-Med . . . for the Product shipped." *Id.* at ¶ 12. Likewise, the parties agreed that all claims of Tecnimed "for the Product Tecnimed has shipped" shall "be dismissed without prejudice." *Id.* at ¶ 10. The obligations of Defendants with respect to the Product shipped thus expressly survived the Settlement Agreement.

In exchange for Defendants' continued obligations with respect to the Products shipped, the Settlement Agreement granted Defendants "continued exclusive rights to sell the Products in the United States to Walgreens, Babies R Us and any new retailers pre-approved by Tecnimed (the "Exclusivity Retailers")." *Id.* at ¶ 3(a). Defendants agreed that, until Tecnimed had been paid in full, they would "continue to exercise reasonable best efforts to market and sell the Product placed at the Exclusivity Retailers." *Id.* at ¶ 3(d). To support such anticipated sales, the parties agreed to terms governing the payment of ongoing commissions by Tecnimed to Defendants for sales made to the Exclusivity Retailers. *Id.* at ¶ 3(b). To ensure that Defendants would continue to pay down their indebtedness to Tecnimed, the parties also agreed that all existing or future Exclusivity Retailers would receive instructions to pay 50% of all sales proceeds directly to Tecnimed until such time as the indebtedness was satisfied. *Id.* at ¶ 1. Additionally, Defendants agreed "to pay Tecnimed 30% towards their indebtedness of any capital that they raise after the execution of this Agreement (whether through debt or equity investment or otherwise), up to the amount of the indebtedness due hereunder." *Id.*

Defendants' Competing "Kidz-Med 5-in-1 Non-Contact Thermometer"

Tecnimed recently came to learn that, starting in or about December 2009 and continuing through August 2010, Defendants began to promote the Thermofocus 5-in-1 under the trade name "Kidz-Med 5-in-1 Non-Contact Thermometer," without using the word "Thermofocus." This is the very name they are now using to promote their new thermometer. Bellifemine Decl., ¶ 55-64. Defendants released press releases, secured placement on several popular national television programs, and created advertisements for the Thermofocus 5-in-1 promoting it solely as the "Kidz-Med 5-in-1 Non-Contact" thermometer. Nowhere in any of those instances did they refer to Tecnimed or the Thermofocus brand. *See* Exs. 23-31. Defendants also started to promote their new thermometer before it was available for sale, and then simply delivered to the purchaser the Thermofocus 5-in-1, as if it was their new thermometer. *See* Exs. 27 and 36.

In June 2010, Tecnimed saw for the first time Defendants' prototype for a new non-contact thermometer at the National Association of Chain Drug Stores ("NACDS") Marketplace convention in San Diego, CA. Bellifemine Decl., ¶ 35. The annual NACDS Marketplace is considered the premier trade show in the United States for retailers to meet with companies to identify new products. *Id.* at ¶ 33. Defendants marketed their new thermometer under the trade name "Kidz-Med 5-in-1 Non-Contact Thermometer." *Id.* at ¶ 35. This is the same trade name that Kidz-Med had been (improperly) using for months to promote the Product.

The packaging for the new product employs the same blue and purple color scheme, and likewise shows a mother holding a sleeping infant. The packaging and promotional materials also use each of the following terms and symbols that Defendants had used in marketing the Thermofocus 5-in-1: "NeverWake Technology"; "No need to touch, startle, upset or wake your child"; "5-in-1 Measures Any Temperature" followed by "Child, Food, Formula, Bath and Nursery"; "Safe, hygienic and easy to use"; and artwork showing the five uses of the Product

The packaging for the new product is confusingly similar to that used for the Product:

KIDZ MED
Non-Contact Thermometer
INSTANT READING
KIDZ MED
MODE
°C/°F
SCAN
NeverWake
Technology
No need to touch, startle, upset or wake your child.
• Pediatrician recommended
• Proven accuracy
• Safe, hygienic, and easy to use
• No probe covers needed
5 in 1 Measure Any Temperature
Child
Nursery
Bath
Formula
Food
Batteries Included

Once Defendants' new product was introduced into the market, Kidz-Med next began to use information about the Thermofocus 5-in-1 to falsely advertise their new thermometer. Defendants, for example, claimed that a prior physician endorsement of the Thermofocus 5-in-1 was given for their new thermometer. Ex. 18.

In or about August or September 2010, Kidz-Med stopped selling the Thermofocus 5-in-1 on their website. In September, their new thermometer became available for purchase. To drive traffic to their site, Defendants are now using the term "Thermofocus" and "01500", a specific Thermofocus 5-in-1 model, as two of the website metatags. *See* Ex. 29 at 1, 3 and 5. Thus, when a customer does a search on Google for "Thermofocus," the Kidz-Med website featuring their new thermometer is the second entry that comes up. *See* Ex. 30.

Defendants Refuse to Stop Breaching the Agreements or Stop Their Unfair Practices

In June 2010, when Kidz-Med introduced the New Product at the NACDS convention, Tecnimed requested at prototype from Defendants to inspect it and investigate any possible infringement. Although Defendants agreed to provide one, they never did. Bellifemine Decl., ¶ 40. On August 18, 2010, counsel for Tecnimed sent a cease and desist letter to counsel for Defendants, demanding that they stop blurring the products. Ex. 32. On August 19, 2010, Defendants responded by contending that they did not have any ongoing non-compete obligations, and agreeing only to make limited changes to their website to reduce the risk of confusion. Ex. 33. On September 10, 2010, counsel for Tecnimed sent another letter to Defendants reiterating the demand to cease and desist. Ex. 34. On the same day, Defendants refused Tecnimed's requests. Ex. 35. The new product became available for sale on September 17, 2010 on Amazon.com. Bellifemine Decl., ¶ 71.

ARGUMENT

A PRELIMINARY INJUNCTION SHOULD ISSUE

"A party seeking a preliminary injunction ordinarily must show: (1) a likelihood of irreparable harm in the absence of the injunction; and (2) either a likelihood of success on the merits or sufficiently serious questions going to the merits to make them a fair ground for litigation, with a balance of hardships tipping decidedly in the movant's favor." *Doninger v. Niehoff*, 527 F.3d 41, 47 (2d Cir. 2008). All of these considerations here support the issuance of a preliminary injunction.

A. DEFENDANTS SHOULD BE ENJOINED FROM SELLING A COMPETING PRODUCT

1. Tecnimed Will Likely Succeed in Establishing that Defendants Have Breached their Non-Compete Obligations and, in the Absence of Injunctive Relief, Tecnimed Will Suffer Irreparable Harm

It is well-settled that a defendant can and should be preliminarily enjoined from violating non-competition obligations. *See Nat'l Elevator Cab & Door Corp. v. H&B, Inc.*, 282 F. App'x 885, 888-89 (2d. Cir. 2008) (affirming grant of preliminary injunction for breach of a non-compete clause); *Johnson Controls, Inc. v. A.P.T. Critical Sys., Inc.*, 323 F. Supp. 2d 525, 532 (S.D.N.Y. 2004) (granting a preliminary injunction when defendant, in violation of a non-compete clause, "lur[ed] away" clients from plaintiff).

In cases involving a violation of a non-compete clause, "courts have often taken a somewhat relaxed approach to the irreparable harm inquiry, and in certain circumstances have found it appropriate to presume the existence of such an injury." *Global Switching Inc. v. Kasper,* No. CV 06 412 (CPS), 2006 WL 1800001, at *12 (E.D.N.Y. June 28, 2006) (internal citations omitted); *see also Hay Group, Inc. v. Nadel,* 170 A.D.2d 398, 399-400 (1st Dep't 1991) (finding irreparable harm without a showing of actual loss of customers). That is, a non-competition clause may be viewed as "an admission by [defendants] that plaintiff will suffer irreparable harm were [defendants] to breach the contract's non-compete provision." *Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 69 (2d Cir.1999) (affirming issuance of preliminary injunction). This is because "it would be very difficult to calculate monetary damages that would successfully redress the loss of a relationship with a client." *Id.*

An obligation not to compete can arise by express agreement or by implication, as when a distributor is given the exclusive right to serve certain markets. An exclusive right to sell "precludes any possibility for the sale of goods competing with the . . . line." *Martin Pincus Mktg. v. Sawyer of Napa, Inc.*, 774 F. Supp. 171, 174 (S.D.N.Y. 1991) (holding that exclusive sales representative that sold a competing clothing line necessarily breached implied obligation not to sell competing products); *World Wide Commc'ns, Inc. v. Rozar*, No. 96 CIV. 1056 (MBM), 1998 WL 409760, at *3 (S.D.N.Y. July 20, 1998) (noting that the best efforts obligations of an exclusive representative "cannot logically be met when obligated to more than one entity."). This obligation owes to the fact that "an exclusive agency leaves the principal at the mercy of the agent." *Liebowitz v. Elsevier Sci. Ltd.*, 927 F. Supp. 688, 712 (S.D.N.Y. 1996).

Even when a distributor does not have exclusive distribution rights, its selling of a competing product is strong evidence that it has breached a duty to exercise best efforts on behalf of the principal. *See Joyce Beverages of New York, Inc. v. Royal Crown Cola Co.*, 555 F. Supp. 271, 275 (S.D.N.Y. 1983) (holding that "Joyce's proposed effort to sell the new line of product to the established customers of the old product and the plan to use advertising and distribution methods developed in the promotion of the first for the promotion of the second product breaches the best efforts clause both factually and legally"); *Advanced Retail Mktg., Inc. v. News Am. Mktg. FSI, Inc.*, 303 A.D.2d 231, 231 (1st Dep't 2003) (affirming judgment that defendant breached best effort obligation to exploit plaintiff's designs when it "instead chose to exploit a different, competing design it had acquired").[2]

Here, the non-competition clause in the Distribution Agreement states that Defendants "shall not distribute, manufacture or represent any products which are in competition with the Products, for the entire term of this contract and for two years after its effective termination." Ex. 1 at § 3.1. On March 6, 2009, the parties terminated the Distribution Agreement and the obligations there under, "*except as otherwise set forth in this Settlement Agreement.*" Ex. 5, ¶ 2. Because Defendants had tens of thousand of unsold thermometers at the time of the parties' settlement, the parties agreed in the Settlement Agreement that "all obligations of ASR and Kidz-Med . . . for the Product shipped" would not be released, which includes Defendants' obligation not to sell thermometers in competition with the Product. *Id.* at ¶ 12. All claims of Tecnimed relating to the Product shipped were released on a "without prejudice" basis.

There is an arguable ambiguity as to whether the ongoing non-compete should be deemed to expire (a) two years after March 6, 2009 (extended for such period of time as Defendants have breached their non-compete obligation) or (b) two years after Defendants stop selling the shipped Product or pay for them, but that is an issue for another day. For now, there can be little earnest dispute that Defendants' non-competition obligation remains in effect at the very least until March 6, 2011. The parties are now entering what is known as the "cough and cold" season, when the majority of thermometers are sold, and it is thus essential that the non-competition clause be specifically enforced through the upcoming season. Bellifemine Decl., ¶ 72.

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[2] Where a party breaches an agreement not to compete, the non-competition period may be extended to account for the time during which the offending party was in violation of the agreement. *See New York Real Estate Inst., Inc. v. Edelman*, 42 A.D.3d 321, 321-22 (1st Dep't 2007) (holding that where party unilaterally breaches an agreement not to compete, such time period may be extended to permit injunctive relief for the length of time that the offending party was in violation of the agreement.); *J. H. Goldberg Co., Inc. v. Stern*, 53 A.D.2d 246, 251-52 (4th Dep't 1976) (holding that when former employee breaks a covenant not to compete, the non-compete period may be extended for the time the employee was in violation of the covenant).

Notwithstanding their express non-compete obligations, in June 2010, Defendants introduced their new thermometer at a trade show and, in mid-September 2010, Defendants began to sell their new thermometer through Amazon.com. Ex. 31. Press releases on ASR's website indicate that Defendants actually started to work with a Chinese manufacturer to introduce a competing line of thermometers *as early as December 2009*. Ex. 14. Defendants do not dispute that they are competing with Tecnimed, nor can they. In August 2010 disclosure materials, Defendants state that "Tecnimed's product, the Thermofocus, will be a direct competitor of the Kidz-Med Non Contact 5-in-1." Ex. 15 at 23. Rather, Defendants say that the Settlement Agreement terminated their non-compete obligations. Ex. 33.

That argument misses the mark for two reasons: *First*, as shown above, the Settlement Agreement released Defendants of all their obligations under the Distribution Agreement except for "all obligations of ASR and Kidz-Med . . . for the Product shipped," which obligations include Defendants' obligation not to sell thermometers in competition with the Product. Ex. 5, ¶ 12. This makes sense. When the parties settled their disputes, Defendants still had tens of thousands of thermometers and it was thus necessary to ensure that Defendants' obligations with respect to those units remained in place. Bellifemine Decl., ¶ 24. For this reason, the Settlement Agreement expressly states that the Distribution Agreement is terminated "except as otherwise set forth in the Settlement Agreement." Ex. 5, ¶ 2. If Defendants obligations under the Distribution Agreement with respect to the shipped Products did not survive, this proviso would serve no purpose at all.

Second, the sale of a competing product is inconsistent with Defendants' ongoing obligation to exercise reasonable best efforts to sell the Product, especially with respect to the two major retail outlets as to which Defendants had ongoing exclusivity – Walgreens and

Babies-R-Us.[3] Although we understand that Walgreens is no longer carrying the Product in-store, it continues to sell the Thermofocus 5-in-1 on line at Walgreens.com. The Product is also sold in-store and on line at Babies R US, as well as through numerous other retail outlets, such as Buybuybaby.com, Amazon.com, Walmart.com, and BabynToddler.com. Ex. 17. According to an August 2010 disclosure statement filed by ASR, "sales to Babies-R-Us and Buy Buy Baby account for over 60% of our revenue." Ex. 15 at 24.

Defendants' continuing best efforts obligation requires them, among other things, to meet the benchmarks set forth in the Distribution Agreement "to promote [the Product] in the most effective way, and in accordance with the general directions given by Tecnimed" and "to protect Tecnimed's interest with diligence of a responsible businessman." Ex. 1, § 2.3. The development and distribution of a competing thermometer is inconsistent with those obligations; it has created a conflict of interest for Defendants, diluting their incentive to sell the Product, and has necessarily reduced sales of the Thermofocus 5-in-1.[4]

In light of the above, a preliminary injunction should issue to stop Defendants from marketing their competing thermometer. Defendants have clearly breached their ongoing non-compete obligations, and that breach is causing Tecnimed irreparable harm. For present purposes, Defendants respectfully request that the preliminary injunction continue at least through March 6, 2011, the earliest date on which Defendants' non-competition obligation expires, and that Tecnimed be given leave to seek an extension of the non-compete period based on what discovery reveals concerning (a) when Defendants first started to develop their new thermometer and (b) whether the parties' intended the non-compete period to expire two years after the Settlement Agreement or two years after Defendants stopped selling the Thermofocus 5-in-1 or paid Tecnimed for the units.

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[3] Tecnimed reserves the right to argue that Defendants' exclusivity has now lapsed in light of their myriad breaches.

[4] Defendants may suggest that their best efforts obligations do not apply to any retailers other than Walgreens and Babies R Us since those were the only Exclusivity Retailers. But the Settlement Agreement contemplates that Defendants would obtain approval to sell through any additional outlets, which would then be added to the Exclusivity Retailer list. Ex. 5 at ¶ 3(a). The fact that Defendants have been making sales through outlets not previously approved by Tecnimed (without splitting any of the proceeds of such sales) should not excuse their obligation to exercise best efforts with respect to such retailers.

2. *The Balance of Equities Tips Decidedly in Favor of Enjoining Defendants' Improper Competition*

Although this Court need not balance the equities where irreparable harm and a probability of success on the merits have been established, the equities here clearly favor Tecnimed. By selling a competing thermometer, Defendants are potentially causing Tecnimed to lose significant sales. While enjoining Defendants from such sales will likewise deprive them of revenues, those are revenues they were never supposed to make in the first place.

Defendants should not be heard to complain that a delay in their entering the market will jeopardize their investment in the new product. As an initial matter, Defendants were obligated to pay Tecnimed 30% of any capital raised, whether debt, equity or otherwise. Ex. 5, ¶ 1. No such payments have been made; indeed, Defendants have represented that no capital has been raised at all. Bellifemine Decl. ¶ 30. Defendants should thus be estopped from now arguing that specific enforcement of their non-compete obligations would adversely impair any return on capital they may, in fact, have raised.

Defendants likewise have no basis to complain insofar as they financed the new thermometer out of operating revenues. According to Defendants, the sale of the Thermofocus 5-in-1 accounts for the vast majority of their revenues. Exs. 6 at 2. This means that Defendants have effectively financed their new venture with money due to Tecnimed (which stands at approximately $300,000) – hardly a compelling reason for Defendants to be spared a preliminary injunction.

B. DEFENDANTS SHOULD BE ENJOINED FROM USING THE PRODUCT'S MARKS AND TRADE DRESS

1. Tecnimed Will Likely Succeed in Establishing that Defendants Have Caused Product Confusion and, in the Absence of Injunctive Relief, Tecnimed Will Suffer Irreparable Harm

Defendants have continuing contractual obligations not to use words and marks of the Product or any references to Tecnimed "so as to avoid confusion on the side of the customers."[5] Ex. 1 at § 8.1. Specifically, Defendants agreed to use Tecnimed's "trademarks, trade names or any other symbol, for the only purpose of identifying and advertising the [Thermofocus 5-in-1] Products." *Id.* Furthermore, they agreed not to use Tecnimed's or the Product's "trademarks, trade names or symbols in [Defendants'] own trade or company name." *Id.* at § 8.2. Finally, Defendants also agreed to not "make any reference to the previous relationship with Tecnimed, in order to avoid any risk of confusion on the side of the customers." *Id.* at § 8.3.

In addition to their contractual obligations, Defendants also have statutory and common law duties to avoid product confusion. A party has a duty as a "second comer [to an industry] … to so name and dress [its] product as to avoid all likelihood of consumers confusing it with the product of the first comer." *Perfect Fit Indus., Inc. v. Acme Quilting Co.*, 618 F.2d 950, 953 (2d Cir. 1980) (reversing district court's denial of injunctive relief); *see also* 15 U.S.C. § 1125(a) (2010); New York Gen. Bus. Law §§ 133, 360-l (McKinney 2010). "[O]ne who adopts the mark of another for similar goods acts at his own peril and any doubt concerning the similarity of the mark must be resolved against him." *Playboy Enters., Inc. v. Chuckleberry Publ'g, Inc.*, 687 F.2d 563, 567 (2d Cir. 1982). The use of "virtually identical" language on promotional tag is infringement. *Spring Mills v. Ultracashmere House, Ltd.*, 689 F.2d 1127, 1130-31 (2d Cir. 1982). Protection against unfair competition extends not only to the name of a good, but also to

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5 As demonstrated in § A.1, *supra*, all of Defendants' obligations under the Distribution Agreement with respect to the shipped Product survived.

its overall presentation or "dress," which is the total image of the good as defined by its composition and design, including color and graphics. *Forschner Group, Inc. v. Arrow Trading Co.*, 904 F. Supp. 1409, 1416-17 (S.D.N.Y. 1995), *aff'd*, 124 F.3d 402 (2d Cir. 1997).

Likelihood of confusion is the test for infringement of unregistered trademarks and trade dress. *See* 15 U.S.C. § 1125(a); *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961);[6] *King v. Innovation Books*, 976 F.2d 824, 828-29 (2d Cir.1992). Basic similarities outweigh peripheral differences because ordinary customers do not study marks and dress; do not remember them point for point; and do not scrutinize them side by side. *Spring Mills*, 689 F.2d at 1133. Evidence of actual confusion is not required for a finding of confusion in the marketplace. *See Lois Sportswear, U.S.A., Inc., v. Levi Strauss & Co.*, 799 F.2d 867, 875 (2d Cir. 1985) (affirming summary judgment and permanent injunction). A "[l]ikelihood of confusion is itself strong evidence that, in the absence of an injunction, [plaintiff] might face irreparable harm." *LeSportsac, Inc., v. Kmart Corp.*, 754 F.2d 71, 79 (2d Cir. 1985) (internal citation omitted); *Nat'l Kitchen Prods., Inc. v. Kelmort Trading and Co*., No. 91 CIV. 7540 (LMM), 1992 WL 18805, at *1 (S.D.N.Y. Jan. 24, 1992) ("Irreparable injury may consist in the actual or *threatened* loss of a business' good will and ability to compete.") (internal citations omitted) (emphasis added).

Where a former licensee of a product continues to use marks associated with that product in breach of his contractual and statutory duties, he should be enjoined. *Century 21 Real Estate LLC v. Bercosa Corp.*, 666 F. Supp 2d 274, 295-96 (E.D.N.Y. 2009). Such continued use is

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[6] The *Polaroid* factors are: (1) strength of the plaintiff's mark; (2) the degree of similarity between the two marks; (3) the proximity of the products in the marketplace; (4) the likelihood that the plaintiff will bridge the gap between the products (enter a market related to that in which the defendant sells its product); (5) evidence of actual confusion; (6) the defendant's bad faith; (7) quality of the defendant's product; and (8) sophistication of the relevant consumer group. *Polaroid Corp.*, 287 F.2d at 495.

"likely to mislead consumers as to the source of [defendant's product]." *Id.* at 296. None of this, however, has stopped Defendants.

With the benefit of hindsight, Defendants' systematic efforts to cause confusion in the marketplace are now quite clear: *First*, starting in or about December 2009 and continuing through August 2010, Defendants began to promote the Thermofocus 5-in-1 under the trade name "Kidz-Med 5-in-1 Non-Contact Thermometer," without using the word "Thermofocus." This turns out to be the very name they are now using to promote their new thermometer. Tecnimed did not realize this was occurring. Bellifemine Decl., ¶ 55. For example:

- An ASR press release from December 1, 2009, discussed the "Kidz-Med 5-in-1 Non-Contact" thermometer reviewed by ABC News. Ex. 23. The press release never mentions Tecnimed or the Thermofocus 5-in-1, even though that is the product being reviewed.

- In January 2010, Defendants secured placement of the Thermofocus 5-in-1 on the Good Morning America Show and the Rachel Ray Show where Defendants again promoted the Product as the "Kidz-Med 5-in-1 Non-Contact Thermometer" without reference to Thermofocus.[7]

- In a January 2010 ASR press release, ASR's Vice President expressly tried to create the false impression that Kidz-Med was developing the successor to the Thermofocus 5-in-1: "We are excited to see that the media A-list are featuring our non-contact, hygienic thermometer [the Thermofocus 5-in-1] as a must-have during the flu season. ***Our new non-contact thermometer will be launching this year, and we hope for similar attention to be drawn to it too.***" Ex. 24.

- In March 2010, Defendants secured placement of the Thermofocus 5-in-1 on ABC's "The Doctors," where Defendants again promoted the Product as the "Kidz-Med 5-in-1 Non-Contact Thermometer." Ex. 25 at 4. ***Defendants are now using this segment about the Thermofocus 5-in-1 to falsely advertise their current product.***[8]

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[7] Video clips from Good Morning America and the Rachel Ray show featuring the Thermofocus 5-in-1 can be viewed at http://www.youtube.com/watch?v=SfeZgOV5vTw starting at 4:52; http://www.youtube.com/watch?v=iTjt-GXFudE starting at 2:40. Another ASR press release dated January 12, 2010, released shortly before the shows, states that the Good Morning America segment would tell "Americans all about the benefits of the *Kidz-Med 5-in-1 non-contact thermometer* in a flu gadget segment." Ex. 23.

[8] A summary of The Doctor episode featuring the Thermofocus 5-in-1 is available through the ASR website at http://www.americansci.com/investors/2010/06/3-23-10-the-doctors/. Once one clicks on the ASR sponsored link, it takes the viewer to another ASR sponsored link with detailed information about the episode from The Doctor's website: http://www.americansci.com/investors/?v1JR4FTl. Ex. 25 at 1. This link features a picture of the Thermofocus 5-in-1 with the following caption: "Thermometer for Kids. Kidz Med 5-in-1 thermometer uses infrared technology to measure a child's temperature in the temporal artery. Simply hold the thermometer an inch away from the forehead -- and presto! -- you receive an immediate reading, accurate within .4 degrees Fahrenheit

- At some point prior to their launch of the new product, Defendants also started advertising the Thermofocus 5-in-1 under their new trade name, as shown in the screen shot below, taken from their website on August 17, 2010 (Ex. 26):

No need to touch, startle, upset or wake your child.
KIDZ MED
5-in-1 Non Contact Thermometer
5-in-1 Measure any temperature
1 SECOND INFRARED READING
Buy Now

Second, Defendants started to promote their new thermometer before it was actually available for sale, and then simply delivered to the purchaser the Thermofocus 5-in-1, as if it was their new thermometer. In particular, as of August 2010 (if not before), a link on the ASR website entitled "New! Kidz-Med 5-in-1 Non-Contact Thermometer," brought the viewer to the Kidz-Med website where only the Thermofocus 5-in-1 was being sold under the Kidz-Med 5-in-1 trade name. Bellifemine Decl., ¶ 61; Exs. 36 and 27. This was part and parcel of Defendants' strategy to affiliate their new thermometer with, and then to replace, the Thermofocus 5-in-1. As stated in a recent ASR disclosure statement: "During the second quarter of 2010, the Company began phasing out distribution of the Thermofocus thermometer . . . and began accepting orders for the new Kidz-Med Non-Contact 5-in-1 Thermometer." Ex. 15 at 56.

Third, in June 2010, Defendants rolled-out their new thermometer at the NACDS trade show using the same name they had been using to advertise the Thermofocus 5-in-1: the "Kidz-Med 5-in-1 Non Contact Thermometer." Ex. 8. This name is likewise confusingly similar to the

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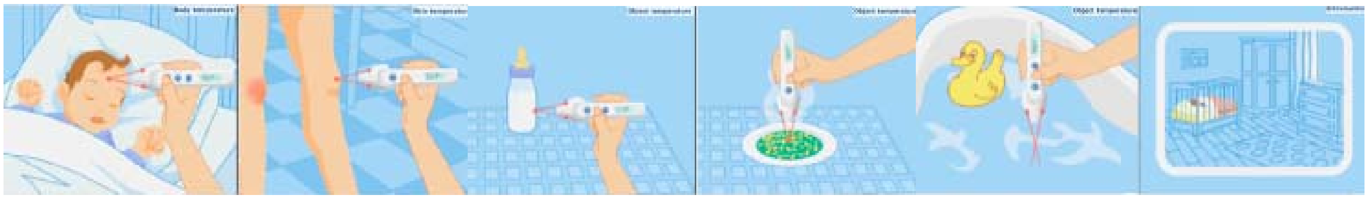
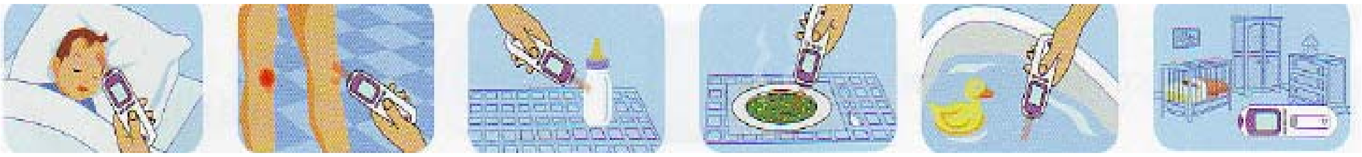
of a rectal temperature, which is considered the ideal standard for children." *Id.* at 4. There is no mention of Tecnimed or the Thermofocus 5-in-1 brand. Most troubling is that when one clicks on the link to "Related Resources," which "provides you with more information about the products mentioned" on the show, it takes the reader to a page listing the Thermofocus as the "Kidz Med 5-in-1 Non-Contact Thermometer" with a link to the Kidz-Med website. *Id.* at 6. When one clicks on that link, it takes him or her to the webpage featuring Kidz-Med's new thermometer – not the Thermofocus 5-in-1 featured on the show. So Defendants are using a show about the Thermofocus 5-in-1 to falsely advertise their new product. These websites were last visited on September 28, 2010.

name they were authorized to use to promote the Product: the "Kidz-Med Thermofocus 5-in-1 Non-Contact Thermometer." Bellifemine Decl., ¶ 10.

Fourth, in promotional literature accompanying their new thermometer, Defendants simply lifted artwork, owned and used by Tecnimed for years, to show the alternative uses of their product. As shown below, the top artwork is from the Thermofocus 5-in-1's DVD (Ex. 12) and the bottom artwork is from Defendants' brochure at the NACDS conference (Ex. 13):





Fifth, the packaging for Defendants' new thermometer prominently features the *exact same* artwork as the one on the Thermofocus 5-in-1 packaging to describe the five uses of the thermometer. The artwork on the left is from the Thermofocus 5-in-1 packaging (Ex. 10) and the one on the right is from Defendants' packaging for the new thermometer (Ex. 11):

5-in-1
Measure Any Temperature
Child
Food
Formula
Bath
Nursery

5 in 1
Measure Any Temperature
Child
Nursery
Bath
Formula
Food

Sixth, in addition to using words and artwork that Tecnimed had used for years, Defendants adopted packaging bearing a striking resemblance to the packaging Defendants had used for the Thermofocus 5-in-1 (Ex. 2 and 9):

NEW!
ThermoFocus
"No-Touch" Thermometer
INTRODUCING
NeverWake™ Technology
No need to touch, startle, upset or wake your child.
1 SECOND INFRARED READING
• Pediatrician recommended
• Clinically tested
• Safe, hygienic, and easy to use
• No expensive probe covers needed
5-in-1 Measure Any Temperature
Child
Food
Formula
Bath
Nursery
KIDZ MED

KIDZ+MED
Non-Contact Thermometer
INSTANT READING
KIDZ MED
MODE
SCAN
NeverWake Technology
No need to touch, startle, upset or wake your child.
• Pediatrician recommended
• Proven accuracy
• Safe, hygienic, and easy to use
• No probe covers needed
5 in 1 Measure Any Temperature
Child
Nursery
Bath
Formula
Food

Virtually everything about the new packaging draws on the old, from the picture of a mother using the thermometer on a sleeping infant to the blue and purple color scheme, from the use of the "NeverWake Technology" logo on both products to the use of the phrase "5-in-1 Measures Any Temperature." The trade dress similarities here surpass those found to be infringing in other cases. *See, e.g.*, *RJR Foods, Inc. v. White Rock Corp.*, 603 F.2d 1058 (2d Cir. 1979), where the following trade dress was found to create unlawful confusion:

VITAMIN C
HAWAIIAN PUNCH
FRUIT PUNCH
FRUIT JUICY RED
White Rock
Punch n Fruity
NON-CARBONATED
ENRICHED WITH VITAMIN C
12 FL OZ

Seventh, Defendants next started to use information about the Thermofocus 5-in-1 to falsely advertise their new product. For example, next to a picture of the new product, Defendants posted the following testimonial from the Director of Surgical Services at Miami Children's Hospital:

> We've been using the 5-in-1 for the last several months in our children's hospital. It's extremely accurate and children of all ages aren't even aware their temperature is being taken, so there's no

> need to restrain an infant or child. Obtaining an accurate temperature is trauma free . . . . The 5-in-1 will revolutionize the health industry and make a difficult part of parenting a delight.

Ex. 18. This testimonial, however, was given with respect to the Thermofocus 5-in-1, not Defendants' new thermometer. Ex. 19. Likewise, on their website, Defendants used the frequently asked questions ("FAQs") developed for the Thermofocus 5-in-1 to describe their new thermometer, relabeling the FAQs link the "Kidz-Med 5-in-1 FAQs." Ex. 20.

Eighth, having linked the two products, Defendants then started selling only their new product on their website, using the same words and phrases carried forward from their prior marketing of the Thermofocus 5-in-1 (Ex. 21):

KIDZ MED
5 in 1 Non-Contact Thermometer
No need to touch, startle, upset or wake your child.
Coming Soon
with NeverWake™ Technology

The trade name "5-in-1 Non-Contact Thermometer," the "NeverWake Technology" mark, the tag line "No need to startle, upset or wake your child," as well as the color of the banner and the use of a curved stripe were all previously used. Ex. 2. When one clicks on the link to purchase the new Kidz-Med thermometer, it brings one to a page describing the features of the thermometer, which says "Pediatrician recommended," the "5 in 1 measures any temperature: child, nursery, bath, formula, food" and that the product is "Safe, hygienic and easy to use." Ex. 22; Bellifemine Decl., ¶ 54 Again, this is the identical phrasing previously used to promote the Thermofocus 5-in-1.

Ninth, to ensure that purchasers intending to buy the Thermofocus 5-in-1 instead buy their new product, Defendants have illegally placed the word "Thermofocus" in the metadata for their website. Ex. 29. This ensures that some customers searching for Tecnimed's Product will instead procure Defendants' new one.

The District Court in *777388 Ontario Ltd. v. Lencore Acoustics Corp.*, 105 F. Supp. 2d 56, 62 (E.D.N.Y. 2000), upheld foreign plaintiffs' allegations that "defendants, while holding themselves out to the plaintiffs as their agents and as [exclusive] distributors representing plaintiffs' commercial interests in the United States, engaged in a systematic campaign to subvert those interests" by distributing misleading promotional materials and manufacturing a competing product of their own. *Id.* at 61-62. The facts in that case are virtually identical to those here. The *777388 Ontario Ltd* court found trademark and trade dress infringement, as well as a section 43 false advertising violation, to be alleged where defendants had (i) promoted and sold plaintiffs' products, sound masking equipment, as defendants' own products by omitting plaintiffs' trademark and name in advertisements and on defendants' web site; (ii) misrepresented that they had installed their own system where they had, in fact, installed plaintiffs' system; (iii) used metatags on their website that included plaintiffs' trademark and name so as to confuse browsers looking for plaintiffs' products and direct them to defendants' website; (iv) manufactured a line of sound masking equipment and marketed it as the same as, or a continuation of, plaintiffs' sound masking system by using similar model numbers and other means to deliberately create confusion among users; and (v) used deceptively similar trade dress on defendants' competing products so as to make them indistinguishable from plaintiffs' line. 105 F. Supp. 2d at 63-64. There is no doubt that Defendants have done each and every one of these things, and more, with respect to the Thermofocus 5-in-1 and their new thermometer, intending to draw business away from Tecnimed and towards their new product.[9]

[9] Defendants have stopped using the testimonials and FAQs for the Product, and selling the Product without mentioning Thermofocus. But they continue to post their press releases and shows linking the products, to market their new product under the same trade name used for the Thermofocus, to use Tecnimed's artwork and logos, to use confusingly similar trade dress, and to use "Thermofocus" and "01500" in their metadata.

Although evidence of actual confusion is not required, it has already occurred here. For example, a September 16, 2010 review for Defendants' new thermometer on Amazon.com states, "***I bought the original 5and1 [the Thermofocus 5-in-1] when we recently had a baby last year. When they [Kidz-Med] came out with there [sic] new one, I had to try it***." Ex. 31. Conversely, on the same webpage where the review appears for the new thermometer referenced as "Kidz-Med 5-in-1 Non-Contact Thermometer", there is another advertisement with the same title, "Kidz-Med 5-in-1 Non-Contact Thermometer," but picturing and selling the Product (Tecnimed's Thermofocus) instead of the new product. *Id.*

In correspondence preceding this lawsuit, Defendants have focused on one aspect of their infringement, taking the position that Defendants do not have a protectable interest in "5-in-1" because it is a generic phrase. Whether or not that is true, words that are generic can become distinctive and protectable where, as here, they are used in a particular context with other words and symbols. *See Pfizer Inc. v. Sachs*, 652 F. Supp. 2d 512, 520 (S.D.N.Y. 2009) (finding that the "Viva Viagra" mark is protectable under the Lanham Act because "it uses the common Spanish word 'viva' in an unfamiliar way to refer to Viagra") (citing *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 11 n.12 (2d Cir. 1976) (mark is considered arbitrary where it applies a common word in an unfamiliar way)). Here, the phrase "5-in-1 Non-Contact Thermometer" is protectable because it uses "5-in-1" in an unconventional way to refer to a thermometer. Defendants have no doubt adopted this mark specifically because of its affiliation with the Thermofocus 5-in-1.

Defendants may also contend that they should be permitted to use the phrase "NeverWake Technology," as well as the Product's trade dress, because they had responsibility for developing those marks in connection with their distribution of the Thermofocus 5-in-1. This argument fails for two reasons. *First*, Defendants agreed not only to refrain from using marks created or owned by Tecnimed, but also to refrain from using in their "own trade" or in their "company name" any "domain, trademarks, trade names or symbols . . . *of the Products*." Ex. 1 at § 8.2. Since "NeverWake Technology" and the trade dress are both marks "of the Product," Defendant cannot now use them in their own trade or company name.

Second, the question under the Lanham Act is not whether the plaintiff created or owns the mark, but whether use of the mark on a second product will cause one to believe incorrectly that the second product is affiliated with the first. 15 U.S.C. § 1125(a); *RBCI Holdings, Inc. v. Drinks Am. Holdings, Ltd.*, No. 07 CIV. 2877 (DC), 2008 WL 759339, at *4 (S.D.N.Y. Mar. 20, 2008) ("One need not be the 'owner' or 'registrant' of a trademark to sue for infringement under § 43(a)"). Standing to bring such a claim "requires the potential for a commercial or competitive injury." *Berni v. Int'l Gourmet Rest. of Ame. Inc.*, 838 F.2d 642, 648 (2d Cir. 1988). Thus, as a matter of both contract and statutory law, any contention that Defendants created certain marks for the Thermofocus 5-in-1 is simply irrelevant. Because such marks were used to promote Tecnimed's thermometers, Defendants cannot now use them to promote their own.

In light of the foregoing considerations, an order preliminarily enjoining Defendants from using the marks and trade dress associated with the Product is clearly warranted. The confusion in the marketplace that Defendants have sought to create has already occurred. If not stopped, Tecnimed will suffer economic loss that will be difficult to quantify, as well as irreparable harm to its good will and reputation. This concern is exacerbated here, because the new thermometer is in many respects inferior to the Thermofocus 5-in-1. The instruction manual has low resolution and illegible manufacturer data. The instrument appears to register surface temperature incorrectly. The unit has an unused push-button on the side, and the plastic packaging is dirty with traces of glue. *See* Ex. 37.

2. *The Balance of Equities Tips Decidedly in Favor of Enjoining Defendants' Use of the Product's Marks and Trade Dress*

Here again, balancing the equities is not necessary, but they clearly favor Tecnimed. Kidz-Med, the second comer to the market, has been systematically sowing confusion in order to attract potential customers. Towards that end, it has used false advertising, sold the Thermofocus 5-in-1 as if it were its own, diverted purchasers of the Product with false metadata, and used marks with the intent to cause confusion. Worse, Defendants have funded these efforts with money due to Tecnimed. As there can be no justification for any of this, there is really nothing to balance here. A preliminary injunction should issue.

CONCLUSION

For the foregoing reasons, the court should preliminarily enjoin Defendants from selling its directly competing New Product at least through March 11, 2011, and from using Tecnimed's symbols, trade mark and trade dress to sell its New Product.

Dated: October 1, 2010

PILLSBURY WINTHROP SHAW PITTMAN LLP

By [signature]

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